

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 PA-02 /131 W
-----117907 130503Z /23

R 121720Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8034
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: PRESS COVERAGE OF CHANCELLOR HEALEY'S REACTION
TO THE BREMEN CURRENCY SCHEME.

1. THE TIMES, THE GUARDIAN, AND THE HERALD TRIBUNE RE-
PORTED CHANCELLOR HEALEY'S JULY 11 REMARKS ON THE BREMEN
CURRENCY PLANS DELIVERED AT A LONDON FOREIGN PRESS ASSO-
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CIATION LUNCH.

2. THE CHANCELLOR IS REPORTED TO HAVE SAID THAT THE
BREMEN CURRENCY PLAN WAS A GOOD STARTING POINT FROM WHICH
THE EEC FINANCE MINISTERS MIGHT BEGIN THEIR DISCUSSIONS,
BUT HE DID NOT THINK OF IT AS "THE PROPOSAL" FOR NEW
CURRENCY ARRANGEMENTS. HE WAS INDEED KEEN TO WORK OUT

A PROPER PLAN FOR DEALING WITH DAMAGING MONETARY INSTABILITY. HE EXPECTED THAT PROGRESS WOULD BE MADE ON ALL OF PRIME MINISTER CALLAGHAN'S FIVE POINTS AT THE BONN SUMMIT.

3. MR. HEALEY IS REPORTED TO HAVE SAID THAT THE MOST SIGNIFICANT PROGRESS OF THE BREMEN MEETINGS WAS THE UNANIMOUS ACCEPTANCE OF THE NEED FOR RESOURCE TRANSFERS TO FORM AN INTEGRAL PART OF ANY CURRENCY SCHEME. QUERIED AS TO WHAT FORM THESE TRANSFERS MIGHT TAKE, HE REPLIED THAT THERE WERE "ECONOMICALLY PERVERSE AND MORALLY UNFAIR" COMMUNITY MECHANISMS THAT SHOULD BE REVIEWED. HE NOTED THAT THE U.K.'S PER CAPITA INCOME RANKS SEVENTH IN THE EEC WHILE ITS CONTRIBUTION TO THE EEC RANKS SECOND; IN CONTRAST, DENMARK WITH THE HIGHEST PER CAPITA INCOME, BENEFITED FROM NET TRANSFERS FROM THE EEC. HE POINTED TO THE RELATIVELY LARGE U.K. CONTRIBUTION TO EUROPE'S DEFENSE.

4. THE HERALD TRIBUNE NOTED THAT HEALEY LISTED THE FOLLOWING CHARACTERISTICS AS DESIRABLE IN ANY NEW MONETARY ARRANGEMENTS:

QUOTE: -- THE NEW SYSTEM MUST BE DESIGNED SO THAT IT REDUCES CONSTRAINTS ON ECONOMIC GROWTH RATHER THAN INCREASING THEM, IN CONTRAST TO THE EXPERIENCE UNDER A REGIME OF FLOATING CURRENCIES

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-- THE NEW SYSTEM MUST BE DESIGNED TO BE DURABLE, UNLIKE THE CURRENT JOINT FLOAT, THE SNAKE, WHICH HAS SHED SEVERAL CURRENCIES INCLUDING STERLING AND THE FRENCH FRANC TWICE DURING ITS EXISTENCE. ALL COUNTRIES THAT JOIN THE

\$ NEW ARRANGEMENT MUST BE ASSURED THAT THEY WILL BE ABLE TO REMAIN WITHIN IT.

-- THE BALANCE-OF-PAYMENTS ADJUSTMENT PROCESS WITHIN THE NEW ARRANGEMENT MUST BE CHARACTERIZED BY "SYMETRICAL" OBLIGATIONS BETWEEN SURPLUS AND DEFICIT COUNTRIES.

-- THE NEW ARRANGEMENT SHOULD OPERATE IN A WAY THAT DOES NOT WEAKEN THE DOLLAR "OR THE YEN."

-- ADEQUATE AMOUNTS OF FUNDS FOR INTERVENTION MUST BE AVAILABLE ON "SUITABLE" TERMS. UNQUOTE

5. THE GUARDIAN'S IAN AITKEN EMPHASIZED A U.K. ATTACK ON THE EEC'S COMMON AGRICULTURAL POLICY AND POSSIBLE DOMESTIC POLITICAL REACTION FROM THE BREMEN PLAN.

QUOTE: ... MR. HEALEY'S REMARKS UNDERLINED SOME SIMILAR HINTS FROM THE PRIME MINISTER ON MONDAY DURING HIS REPORT TO THE COMMONS ON THE PROGRESS OF THE BREMEN SUM-

MIT. MR. CALLAGHAN EMPHASIZED THAT HE HAD PERSUADED HIS EUROPEAN COLLEAGUES TO INSTITUTE FURTHER STUDIES OF THE DETAILS OF ANY NEW MONETARY SYSTEM, INCLUDING THE QUESTION OF THE TRANSFER OF RESOURCES AND THE NEED FOR A CON-

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VERGENCE IN THE ECONOMIES OF THE MEMBER COUNTRIES OF THE COMMUNITY.

HE DREW ATTENTION TO HIS OWN INSISTENCE TO THE NEED FOR A MAJOR REVIEW OF THE WORKING OF THE CAP, AND INSISTED THAT ANY EXTENSION OF AGRICULTURAL TRANSFER PAYMENTS TO COVER NEW MEMBERS OF THE COMMUNITY LIKE SPAIN, PORTUGAL, AND GREECE SHOULD NOT INVOLVE AN ACTUAL INCREASE IN THE OVERALL CAP BUDGET. (SEE LONDON 10937.)

BUT IT IS ALREADY CLEAR THAT THERE IS REAL HESITATION ABOUT THE APPROPRIATE BRITISH RESPONSE TO THE FRANCO-

GERMAN INITIATIVE AT BREMEN. ALTHOUGH SOME MINISTERS AND
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OFFICIALS ARE HIGHLY SCEPTICAL ABOUT THE BREMEN SCHEME,
OTHERS ARE ANXIOUS NOT TO ISOLATE BRITAIN FROM THE MAIN-
STREAM OF THE EEC BY STANDING ASIDE.

THE ARGUMENT NOW THREATENS TO REOPEN MANY OF THE
HALF-HEALED WOUNDS IN THE LABOUR PARTY INFLICTED BY THE
ROW OVER BRITAIN'S MEMBERSHIP OF THE COMMON MARKET. MANY
OF THE ARGUMENTS NOW BEING ADVANCED BY OPPONENTS OF MONE-
TARY UNIFICATION ARE IDENTICAL TO THOSE EMPLOYED BY OPPON-
ENTS OF BRITAIN'S ORIGINAL DECISION TO JOIN THE EEC.

EFFORTS ARE BEING MADE TO DAMP DOWN THE ARGUMENT
BEFORE THE GENERAL ELECTION. END QUOTE

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